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C O N F I D E N T I A L MOSCOW 3016

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SUBJECT: GULF OIL PARTICIPATION IN JAPANESE-SOVIET NEGOTIATIONS
FOR SAKHALIN OFFSHORE OIL AND GAS DEVELOPMENT

CINCPAC FOR POLAD

REF: A) MOSCOW 18437 B) MOSCOW 2302

1. SUMMARY: GULF OIL REPRESENTATIVES HAVE BEEN PARTICI-
PATING IN SOVIET-JAPANESE TECHNICAL NOEGOTIATIONS ON EXPLORA-
TION AND PRODUCTION OF SAKHALIN OFFSHORE OIL AND GAS
DEPOSITS WHICH ARE EXPECTED TO RESULT IN SIGNATURE OF
PROTOCOL IN MOSCOW SHORTLY. GULF WILL OWN TEN PERCENT OF
PRIVATE SECTOR OF SPECIAL JAPANESE FIRM BEING ESTABLISHED
FOR SAKHALIN DEVELOPMENT AND FOR CASH FEE GULF WILL PROVIDE
TECHNOLOGY, EQUIPMENT AND SERVICES FOR EXPLORATION AND
PRODUCTION. GULF REPS ESTIMATE THAT OFFSHORE DEPOSITS MAY
EVENTUALLY YIELD AS MUCH AS 400-500,000 BARRELS PER DAY OF
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HOGH-QUALITY CRUDE AND AS MUCH AS FIVE MILLION CUBIC FEET OF

NATURAL GAS PER DAY. TLAKS HAVE BEEN GOING WELL DESPITE PROBLEMS CAUSED BY SOVIET EFFORTS TO LIMIT NUMBER OF JAPANESE PERSONNEL WHO WILL WORK IN SAKHALIN AREA. GULF EXPECTS TO CONDUCT FIRST SURVEY OPERATIONS THIS SUMMER AND TO START DRILLING IN SUMMER OF 1976. GULF PERSENCE WILL BE FIRST STEP IN JAPANESE DRIVE TO SECURE AMERICAN PARTICIPATION-WITH JAPAN--IN SIBERIAN DEVELOPMENT, DESPITE FACT THAT, FOR TIME BEING AT LEAST, US WILL NOT BE TAKING PART IN YAKUTIA NATURAL GAS EXPORATION. END SUMMARY

2. ON MARCH 6 EMBOFF TALKED AT LENGTH WITH GULF OIL CONSULTANTS G.C. LEDINGHAM AND P.L. GOSSERT WHO ARE TAKING PART IN SOVIET-JAPANESE NEGOTIATIONS ON TECHNICAL ASPECTS OF SAKHALIN OFFSHORE OIL AND GAS EXPLORATION AND DEVELOPMENT. JAPANESE TALKS WITH SOVIET MINISTRIES OF GEOLOGY, OIL INDUSTRY AND FOREIGN TRADE HAVE BEEN UNDERWAY SINCE MARCH 3, AND HAVE BEEN PROGRESSING WELL. SIGNATURE OF FINAL PROTOCOL EXPECTED BY MARCH 7.

3. GULF TO CONTROL TEN PERCENT (VALUE THREE MILLION DOLLARS) OF PRIVATE SECTOR OF SAKHALIN OIL DEVELOPMENT COOPERATION CO. LTD. (SODCCO), A SPECIAL JAPANESE COMPANY BEING FORMED FOR SAKHALIN PROJECT. '0-,3 3 &9;34.,3,5 28)) 92, 70 PERCENT OFSHARES, JAPANESE FIRMS AND GULF REMAINING 30.

4. PRIMARY GULF ACTIVITY IN PROJECT WILL BE PROVISION OF SERVICES, SPECIALIZED TECHNOLOGY AND EQUIPMENT FOR OFFSHORE EXPLORATION, DRILLING AND PRODUCTION, AN AREA IN WHICH GULF AND OTHER US FIRMS ARE MOST ADVANCED IN WORLD AT PRESENT TIME. THIS WILL INCLUDE FEASIBILITY STUDIES, SEISMIC DIGITAL PROCESSING, GRAVIMETRIC AND MAGNETIC INTERPRETATION, USE OF FLOATING RIGS AND SPECIAL TECHNOLOGY FOR ICE CONTROL. IT WILL ALSO INCLUDE USE OF GULF'S SPECIALLY FITTED OFFSHORE EXPLORATION SHIP, HOLLIS HEDBERG.

5. ACCORDING TO LEDINGHAM AND GASSETT, BOTH JAPANESE AND SOVIETS RECOGNIZE US SUPERIORITY IN THESE AREAS, AND WANT US EQUIPMENT, BUT SOVIETS WOULD PREFER TO HAVE ALL, OR ALMOST ALL OF PERSONNEL INVOLVED BE SOVIET. THIS
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UNFEASIBLE SINCE SOVIETS NOT SUFFICIENTLY TRAINED FOR USE OF EQUIPMENT OF TECHNOLOGY. IN CURRENT NEGOTIATIONS SOVIETS PARTICULARLY INSISTENT THAT JAPANESE PRESENCE IN PROJECT BE MINIMAL, A DEMAND WHICH IS ALSO UNFEASIBLE SINCE SOME OF JAPANESE PERSONNEL--IN CONTRAST TO SOVIETS--ARE HIGHLY QUALIFIED. FURTHERMORE, JAPANESE PROVIDING MOST OF FINANCING AND RISK CAPITAL.

6. GULF IS REQUESTING FLAT FEE FOR USE OF ITS SERVICES, TECHNOLOGY, EQUIPMENT. USSR AND JAPAN MAY SHARE PAYMENT, WHICH WILL BE "SEVERAL MILLION DOLLARS." EXACT AMOUNT STILL UNDER NEGOTIATION, WITH FINAL AGREEMENT POSSIBLY BY END OF MARCH.

7. INITIAL GULF EXPLORATION AND SURVEY WORK WILL BE FOLLOWED BY PRODUCTION ASSISTANCE AND SPECIAL ACTIVITIES SUCH AS ICE PROBES AND YEARLY RESERVOIR SURVEYS. THESE WILL CONTINUE FOR DURATION OF PRODUCTION, ABOUT 20 YEARS. FOR FIRST TEN YEARS NUMBER OF AMERICAN TECHNICIANS PRESENT IN AREA WILL BE RELATIVELY SMALL, ABOUT 10 TO 15 AT MOST.

8. GULF EXPERTS ARE CONFIDENT THAT THEY WILL FIND LARGE AMOUNTS OF HIGH-QUALITY, LOW-SULPHUR-CONTENT CRUDE ON SAKHALIN SHELF. LEDINGHAM PREDICTS EVENTUAL PRODUCTION OF AS MUCH AS 400-500,000 BARRLES PER DAY. NATURAL GAS OUTPUT WILL BE EQUALLY IMPORTANT, AND IS EXPECTED TO RANGE AS HIGH AS FIVE MILLION CUBIC FEET PER DAY.

9. ALTHOUGH LEDINGHAM AND GOSSERT WERE RELUCTANT TO MAKE PRECISE PREDICTIONS, THEY THINK IT POSSIBLE THAT IF JAPANESE-SOVIET "COOPERATION" CONTINUES AT LEVEL MANIFESTED IN CURRENT TALKS, PRELIMINARY EXPLORATION WORK CAN BE COMPLETED DURING ICE-FREE PERIOD THIS SUMMER (JUNE-SEPTEMBER), AND THAT FIRST DRILLING CAN BEGIN DURING SUMMER OF 1976. DEPTH OF WATER OVER SAKHALIN SHELF VARIES FROM 20 TO 200 METERS AND HEAVY ICE STRUCTURES DURING LONG WINTERS WILL PRESENT SPECIAL PROBLEMS FOR MAINTENANCE OF CONTINUED PRODUCTION.

10. COMMENT: ASSUMING THAT GULF CONTRACT FOR SERVICES IS ACCEPTED, AND GULF REPS BELIEVE IT WILL BE,
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PRESENCE OF GULF IN SAKHALIN AREA FOR A PROLONGED PERIOD WILL MEAN THAT US WILL AT LEAST HAVE FOOT IN THE DOOR IN ECONOMIC DEVELOPMENT IN SOVIET FAR EASTERN REGION--DIRECTLY CONTIGUOUS TO SIBERIA--DESPITE FACT THAT US RESTRICTIONS ON EXIM CREDITS HAVE RULED OUT, FOR TIME BEING AT LEAST, ANY US PARTICIPATION IN NATURAL GAS DEVELOPMENT IN EASTERN SIBERIA (YAKUTIA). JAPANESE CAN REGARD GULF ROLE AS A POSITIVE STEP IN THEIR CAMPAIGN TO SECURE US PARTICIPATION, ALONG WITH JAPANESE FIRMS, IN SIBERIAN DEVELOPMENT. ALSO INTERESTING ARE OBVIOUS SOVIET SENSITIVITY OVER POSSIBLITY OF LARGE NUMBER OF JAPANESE TECHNICIANS WORKING IN SAKHALIN AREA, AND FACT THAT A SMALL NUMBER OF AMERICANS WILL BE WORKING IN REGION WHICH HAS BEEN STRICTLY OFF LIMITS FOR TRAVEL BY FOREIGNERS SINCE WORLD WAR II.

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